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FM AMEMBASSY BRASILIA
TO RUEHC/SECSTATE WASHDC PRIORITY 7693
INFO RUEHRI/AMCONSUL RIO DE JANEIRO 3590
RUEHSO/AMCONSUL SAO PAULO 8891
RUEHBU/AMEMBASSY BUENOS AIRES 4486
RUEHMN/AMEMBASSY MONTEVIDEO 6660
RUEHAC/AMEMBASSY ASUNCION 5852
RUEHSG/AMEMBASSY SANTIAGO 5993

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SUBJECT: Brazil's Proposal for Compensated Reduction of
Deforestation to Address Climate Change

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¶1. (SBU) Summary. On December 19, 2006, USAID's Embassy Brasilia office and Emboffs hosted Paulo Moutinho of the Amazon Institute of Environmental Research (IPAM). Moutinho presented details of the Government of Brazil's proposal for compensated reduction of deforestation as a means to combat global climate change. The GOB proposal was tabled at the United Nations Climate Change Conference meeting in Nairobi November 15-16 and was also briefly presented at the most recent Common Agenda for the Environment meeting in Brasilia (reported septel). It builds upon an earlier - and in some ways superior - proposal tabled by IPAM itself. Although deforestation reduction is not specifically addressed under the Kyoto Protocol's Clean Development Mechanism (CDM), the GOB seeks to capture the spirit of the CDM, while providing an alternative for developing countries with tropical forests to address climate change via fiscal incentives for voluntary reductions in deforestation. Moutinho's informative presentation described the mechanics of the proposal, but also illustrated several substantive faults, as well as internal Brazilian political obstacles, that may hinder its actual acceptance. End of Summary.

The Basics - Put Your Money Where Your Mouth Is

¶2. (SBU) The GOB introduced its proposal for compensated reductions in deforestation at the United Nations Framework Convention on Climate Change (UNFCCC) meeting in Nairobi, citing, in part, a lack of a mechanism under the Kyoto Protocol to address contributions to global climate change by deforestation. By some accounts, deforestation accounts for as much as 25% of global greenhouse gas emissions - though the Government of Brazil (GOB) generally believes that deforestation represents less than 9% of global emissions. Moutinho explained the operational objectives of the proposal: (1) to achieve a demonstrated reduction of tropical deforestation by developing countries; and (2) to allow developing countries to better contribute to the goals of the Kyoto Protocol through a decrease in net greenhouse gas emissions caused by deforestation. The centerpiece of the proposal is compensation for demonstrated deforestation reductions to be paid by donor (developed) countries and only following proof of actual reduction. This is, therefore, a results-based program. All efforts under this proposal would be voluntary and, according to Moutinho, would not act as an offset for other countries' emissions.

In a Nutshell - How Would the Proposal Work?

13. (SBU) According to Moutinho, the proposal contemplates that participating countries would measure their national rate of deforestation each year during a particular reference period, e.g., five years. That yearly rate of deforestation would then be measured against an agreed upon baseline, established in accordance with historical deforestation rates and agreed to by donor and forest countries (and updated periodically). Moutinho indicated that IPAM and the Brazilian Ministry of Environment (MMA) are currently working on a scientific model to establish historical baselines.

14. (SBU) A net decrease in deforestation following the reference period would entitle the country to credit from an as yet to be established international fund, while a net increase would mandate a debit from that fund. Credits would be assigned a monetary value based upon the current value of carbon credits on the international commodities market. Simply put, if the rate of deforestation during the reference period was lower than the historical baseline, then the country would be entitled to receive credit for that reference period. On the other hand, should the country's deforestation rate be higher than the historical rate, the country would be debited for that period. Moreover, Moutinho explained, should a net increase in deforestation result, the forest country would theoretically be required to reduce its deforestation rate during the subsequent reference period sufficient to achieve a zero sum deforestation rate.

15. (SBU) The GOB proposal builds upon an earlier - and in many ways superior idea - originally floated by IPAM itself. Under the IPAM proposal, instead of receiving disbursements from an international fund developing countries would receive carbon credits which could be negotiated on any of the carbon credit exchanges currently existing throughout the world. In formulating its proposal, the GOB

eschewed this approach in favor of the fund idea.

Next Steps

16. (SBU) Comment: While the GOB's proposal has potential to be a basis for future discussions and its overall environmental goals are positive, on its face the proposal appears to lack answers to several technical and political considerations that would require resolution prior to it gaining any traction. Technically speaking, the issue of quantification of deforestation reduction has not been substantively addressed. Without an internationally accepted basis for determining increases and decreases in deforestation it could be difficult for the proposal to move forward. Moreover, there are no guarantees that a country, after receiving compensation for decreasing deforestation during a particular reference period, would not pull out of the program in order to allow for future full-scale development of forest lands. Thus, the program, as it stands, might only be a short-term solution. Additionally, the GOB has not provided any details on the overall administrative structure of the fund, nor has it indicated how the compensation fund would be managed. While the current idea is that funds received would be under the control of the MMA for use in deforestation enforcement and conservation management projects, no guarantees or plans have been presented by the GOB for transparent use of the money.

17. (SBU) On the political front, the proposal lacks serious consideration of the fundamental question of sovereignty as it relates to deforestation monitoring within the borders of participating countries. Given Brazil's recently stated stance on the Amazon Basin Conservation Initiative, for example, that a country such as the U.S. (a country from outside the region) should not be directly involved in the management of Brazil's natural resources, and reported disputes among involved Ministries (i.e., Environment Ministry for, MFA against), the proposal may lack full political support within the GOB. In a related show of the political gamesmanship underlying the proposal, the GOB will not refer to any net reduction in deforestation as an "avoidance" or "conservation" measure, which may be an attempt to protect itself from future deforestation obligations or targets for developing countries. End Comment.